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CONFIDENTIAL

SIPDIS
TELEGRAM

January 25, 2004

To: No Action Addressee
Action: Unknown
From: AMEMBASSY ABU DHABI (ABU DHABI 254 - ROUTINE)
TAGS: EAID, ECIN, ECON, EFIN, PGOV
Captions: None
Subject: ARAB MONETARY FUND PLEDGES ASSISTANCE TO IRAQ
Ref: None

CONFIDENTIAL ABU DHABI 00254

SIPDIS
CXABU:
ACTION: POL
INFO: AMB DCM P/M RSO ECON
Laser1:
INFO: FCS

DISSEMINATION: POL
CHARGE: PROG

APPROVED: DCM: RALBRIGHT
DRAFTED: ECON:CCRUMPLER
CLEARED: ECON: OJOHN

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RR RUEHC RUEHEE RUEATRS RHEHNSC RUEHDE RHMFSS
DE RUEHAD #0254/01 0251116
ZNY CCCCC ZZH
R 251116Z JAN 04
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 3100
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUEATRS/DEPT OF TREASURY WASH DC
RHEHNSC/NSC WASHDC
RUEHDE/AMCONSUL DUBAI 3677
RHMFSS/HQ COALITION PROVISIONAL AUTH BAGHDAD

CONFIDENTIAL SECTION 01 OF 02 ABU DHABI 000254

SIPDIS

DEPT FOR NEA, NEA/ARP, EB/IFD FOR DAS GREENWOOD
TREASURY FOR DAS LOWERY
NSC FOR KIFAYAT, THEROUX

E.O. 12958: DECL 01/25/08
TAGS: EAID ECIN ECON EFIN PGOV TC
SUBJECT: ARAB MONETARY FUND PLEDGES ASSISTANCE TO IRAQ

11. (U) Classified by DCM Richard A. Albright, for reasons
1.5 (B) and (D).

12. (SBU) Summary: During a January 20 meeting with State
DAS Greenwood and Treasury DAS Lowery, officials from the
Abu Dhabi-based Arab Monetary Fund (AMF) gave assurances
that the Fund would do everything it could to alleviate
Iraq's debt burden and sought an acceptable mix of debt
rescheduling and fresh funds for Baghdad. The AMF

officials noted, however, that substantial debt forgiveness was not in the cards, and that the USG and IGC should seek debt reduction from the major lenders. Anything the AMF could do beyond that would be "cosmetic." End summary.

AMF Willing To Help...

¶3. (SBU) AMF Adviser and key spokesperson on Iraq Dr. Hazim El-Biblawi and AMF Director of Finance Ghassan Bshara provided visiting US officials DAS Greenwood and DAS Lowery an update on Iraq's standing with the Fund. Bshara noted that Iraq owes the AMF 315 million SDRs, equivalent now to approximately USD \$470 million. This figure includes an approximate USD \$250 million in principal debt and USD \$220 million in unpaid interest and penalties to the AMF. The AMF Board of Governors agreed last April that Iraq needs substantial debt reduction immediately, and the Fund will do everything it can to help Iraq.

¶4. (SBU) Bshara explained that Iraq was a very active borrower in the late 1980s, but ceased to make any repayments to the AMF in 1991. Despite its suspended membership in the AMF, Iraq has continued to participate in various AMF-sponsored training opportunities, and will send a delegation of Central Bank officials to an AMF training program for bank supervisors this March.

...Proposes Debt Rescheduling, Not Forgiveness

¶5. (C) El-Biblawi explained that the AMF has never forgiven a member's debt, as this would set a dangerous precedent for the Fund -- which is owed some USD \$600 million in outstanding loans by Iraq, Sudan, and Somalia. Iraq is the largest debtor; Sudan has settled its principal debt, but owes the AMF about USD \$74 million in interest and Somalia owes USD \$158 million total. This unpaid debt represents about 18 percent of the AMF's total loans to member states (around USD \$3.5 billion) and almost half of the organization's paid-up capital (USD \$1.3 billion). The financial integrity of the Fund would be threatened, said El-Biblawi, if the Fund forgave Iraq's debts completely.

¶6. (C) Seeking an acceptable alternative, El-Biblawi said the AMF would probably propose a mix of debt rescheduling and forgiveness of penalties accrued. He suggested a very long period of rescheduling (possibly as long as 30 or 40 years, as was the case of Sudan's rescheduling), with forgiveness of the penalties (amount unknown, but El-Biblawi said it represented a fraction of the total 315 million SDRs owed), the option of fixed or floating interest rates, and a grace period of several years initially to allow Iraq's economy to rebound. El-Biblawi stressed that AMF involvement in HIPC reduction is decided on a case-by-case basis; the Fund most recently participated in the HIPC debt reduction for Mauritania.

¶7. (C) He also assured our diplomats that fresh funds would be available to the Government of Iraq as soon as the AMF reached an agreement with Baghdad on debt rescheduling. He said the amount of new lending available to Baghdad would be considered in combination with any proposed debt reduction/rescheduling -- and in consultation with the IGC.

Dialogue With Iraq

¶8. (C) El-Biblawi acknowledged that Iraqi officials have not yet approached the AMF about rescheduling its debt. In a recent meeting with Iraqi Finance Ministry officials, El-Biblawi said the Iraqis asked for debt forgiveness only. He told the Iraqis there would be debt rescheduling, but no forgiveness, and urged them to seek debt relief from the major lenders. "Any forgiveness from the AMF would then be

cosmetic." (Note: Multilateral lending institutions hold about 1 percent of Iraq's total debt. End note.)

¶19. (U) DAS Greenwood and DAS Lowery did not have the opportunity to clear on this cable prior to release.

¶10. (U) Minimize considered for the CPA.

Wahba